# Growing debt, unforeseen bills hinder savings

***Money Manager/by Karin Price Mueller***

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Jerri was happy to be on her own after graduating college with a psychology degree a year ago. But since that time, she has found that independence isn't cheap. In fact, it can be downright costly.

``I don't go out that much. I don't buy a lot of clothes or other things,'' says Jerri, 23, who lives on the South Shore.

Though she's trying to keep her spending under control while she pays down debt, unexpected budget-busters keep coming along to put a wrench in Jerri's savings plans.

``I try to spend less but these things keep coming up,'' says Jerri, whose name has been changed for publication.

Earlier this year, she was in two separate car accidents that cost her a $500 deductible each time, plus some additional repair costs. She had wisdom teeth removed - without dental coverage - at a cost of $700.

Add those costs to the built-in expenses of everyday life, plus the occasional expense of gifts for family members, and the bills have been piling up.

In a short time, she has accumulated a whopping $7,600 in credit card debt - about 25 percent of her annual salary of $27,000. Her primary job, with a temporary staffing employment agency, pays $23,000, and she has taken a second job as a pharmacy technician - a position she held while attending college - to earn extra cash to pay down her credit cards and help pay for her work-related expenses.

In addition to the credit card debt, Jerri owes $3,500, or $200 a month, on a car loan. Auto-related and commuting costs are a hefty part of her budget, as she takes the long haul from the South Shore to Newton every day. Every month, she pays $200 for insurance and taxes, $50 for repairs and $70 for gas.

One of the reasons she lives so far from work is that she shares her apartment with a long-time friend, but Jerri is interested in moving closer to work to cut down on commuting costs. But with rent of about $380 a month, she knows she'd be hard-pressed to find something cheaper.

``It's kind of a bad apartment,'' she says. ``The landlord doesn't really care about the building's condition and every time something goes wrong, he jacks the rent up $25 or $50 a month.'' On average, four times a year, she says.

So for now, Jerri calls moving a pipe dream.

Jerri's also been looking for a new job, one that better matches her college degree, and hopefully, pays more and offers an easier commute.

``At my job they keep telling me I have the potential for a raise and promotion, but they keep pushing it off,'' she says.

**Solution:**

**Putting away credit cards is first step**

The best thing Jerri could do is to rid herself of debt.

``To start life with debt is hard,'' says Christiane Delessert, a certified financial planner who is a member of the Financial Planning Association of Massachusetts and principal of Delessert Finanical Services, based in Newton. ``But Jerri has a good head on her shoulders.''

She says Jerri is taking the right steps to get on track, such as earning extra money to reduce debt and sharing an apartment with a roommate to cut down on costs.

A glance at Jerri's cash flow shows she's trying very hard to live within her means, Delessert says. She shares rent, her clothing allowance is very low, she does not eat out often, her telephone costs, including a mobile phone, are reasonable. Her biggest costs are monthly $200 car payments for her Kia, which cost $8,000 new, and credit card repayments of $150 a month.

Not only has Jerri been plagued by some expensive surprises, but she also appears to be a generous person, Delessert says. Part of the reason her credit cards have run up is that she makes generous gifts to her family at every birthday and at holidays. Jerri calls gift-giving ``something of a competition'' in her family, and that makes it hard to keep costs low.

Simply, Jerri needs to cut down the use of her credit cards.

Ideally, she should stop charging until the debt is paid back, Delessert says. Though one card with a balance of $2,500 was used for the purchase of books when Jerri was in school, she uses the other cards for gifts to family, gas and repairs on the car.

Though car repairs are unavoidable, Delessert says Jerri has to find a way to cut back on the money she spends on gifts for other people. Perhaps she could consider smaller gifts or handmade gifts for her family and friends, Delessert says.

``Her parents would probably appreciate the fact that she is trying to retire her debt.''

Delessert says Jerri should put herself on a strict budget that doesn't allow extra trips to the ATM. ``She should put her cash for the week in an envelope and if she spends it, that means there's no movie at the end of the week,'' she says.

Once Jerri stops adding to her credit cards, she should consolidate the debt. She now pays a hefty 17.9 percent interest rate on one card, and 17.99 percent on another - rates that Delessert calls extravagant.

Transferring these two credit balances to a card with a lower interest rate should help in a big way, says Delessert, but she warns Jerri to watch out for teaser rates.

Several major credit card issues are offering rock bottom rates that turn out to be only introductory rates to bait you. The rates last only a few months and then go way up just like the cards Jerri has today, Delessert says. So she recommends Jerri check online at bankrate.com (www.bankrate.com) for more insight on how introductory rates work, and to investigate new deals.

No matter how Jerri approaches her debt consolidation, Delessert says the most important thing to remember is never to miss a payment. If Jerri can show a good payment history, she may find a credit card issuer who will keep the interest rate down.

Jerri says she would love to move out of her shared apartment, both to be on her own and also to be closer to her job, for which she endures an hour-long commute each way. Delessert says it's something to consider, but not in the way that Jerri's dreamed.

``If she moves closer to Boston she'll cut her car-related expense, but rent will be more expensive the closer she moves to Boston,'' Delessert says. ``If she shares with two people it might be possible.''

Otherwise, Jerri's apartment expenses could double or even triple - something that her budget couldn't handle, even with smaller commuting costs.

Delessert suggests some savings tips: brown bag lunches; renting movies at your local video store, inviting friends over, having them bring food rather than going out; using coupons for groceries; cooking at home; give handmade gifts; consider commuting to work with somebody if possible.

Though Jerri also wants to start saving for her future, Delessert says it will have to wait until the debt is under control.

Even though Delessert would love to see Jerri have three to six months worth of living expenses in the bank for emergencies, she says Jerri would be better off paying down her debt before saving, because in the meantime she'll keep racking up interest charges at nearly 18 percent. And if a money emergency comes up in the meantime, Jerri can always fall back on her credit cards.

Eventually, Delessert says Jerri should set her sights on her 401(k) plan.

``The earlier you start the better, but that's theoretical if you can't meet your other goals,'' Delessert says.

She says at Jerri's age, it's hard to think about retirement savings because there are so many other near-term goals to consider, such as eventually buying a house or a condo.

But when Jerri is finally free of debt and ready to start contributing, Delessert recommends she divide her contributions between Fidelity Mid Cap Stock and Fidelity Dividend Growth - two of her investment options.

``They are two very good funds with good performance, and they compare very well to their peer group,'' she says.